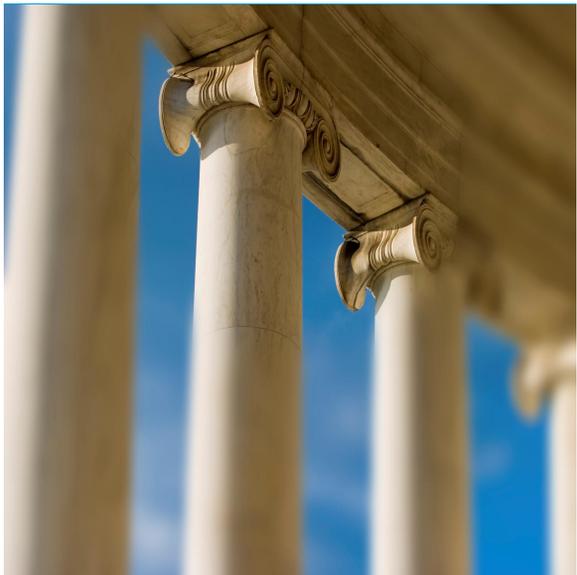


# MERCER



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## Analysis of Health Insurance Benefits for Public Employees State of Indiana



# Analysis of Health Insurance Benefits for Public Employees

## Agenda

- Review of Project Scope, Deliverables and Process
- Current Situation
- Sources of Potential Savings
- Benchmarking
- Case Study
- Projected Savings
- Question and Answer

# Analysis of Health Insurance Benefits for Public Employees

## Project Scope

- PD3027.298. -->SECTION 494. [EFFECTIVE JULY 1, 2009] (a) The budget agency shall review the costs of providing employee health, vision, and dental insurance for state employees and employees of school corporations and public universities. In conducting the review the budget agency shall collect data on the cost of existing plans offered by the state, school corporations, and public universities. School corporations and public universities shall provide the data needed to complete the review as requested by the budget agency.



# Analysis of Health Insurance Benefits for Public Employees

## Project Deliverables

- Evaluate the current cost of delivering health care and potential opportunities for creating efficiencies in purchasing health care benefits
- Assess the following components of the benefit plans:
  - Current plan designs (medical, pharmacy, dental, vision) and how they benchmark against market
  - Current costs and cost structure
  - Risk management programs
- Develop scenarios to achieve the goals of managing to lower overall costs with more transparency and less risk at the individual corporation level

# Analysis of Health Insurance Benefits for Public Employees

## Project Process

- During March and April 2010 Mercer collected data from 290 school corporations, 7 public universities and the State (100% response rate)
- Data elements included: plan sponsor attributes, plan designs with the most enrollment (medical, pharmacy, dental, vision), population and enrollment, funding arrangements, employee contributions, COBRA rates, stop loss insurance details, carrier information, and producer compensation
- During April 2010, Mercer collected data from the vendors with a response rate as follows:
  - 313 out of 321 Medical plans (98%); 147 out of 159 Dental plans (92%); 77 out of 82 Vision plans (85%)
- Data collected from the medical, Rx, dental, vision and stop loss carriers included: 24 months of employee/member counts, funding arrangement, claims by month (24 months), stop loss insurer, coverage and premiums, retention and administration fees
- May and June 2010 Mercer reviewed, confirmed, arrayed and analyzed all data. Today's report concludes this process.

# Analysis of Health Insurance Benefits for Public Employees

## Current State

- Today school corporations spend approximately \$1.4 Billion or 21% of their general fund budget on healthcare benefits for their employees and dependents
- Public university healthcare benefit spend for their employees and dependents is approximately \$0.6 Billion
- Total annual spend on healthcare for school corporations and public universities is \$2.0 Billion
- This expenditure can be materially reduced by:
  - Leveraging the scale advantage in procurement by combining State, School Corporation and Public University employees - advantaging Indiana taxpayers
  - Improving management and administration of healthcare benefits through participation in the State plan since, in Mercer's professional opinion, the State's healthcare offering is currently optimized and plan designs and contributions are within an optimal range relative to benchmark

# Analysis of Health Insurance Benefits for Public Employees

## Sources of Potential Savings

- **Group size advantage** - Combining public schools into a common benefit program can achieve savings through economies of scale in procurement, more efficient management of risk and consistent application of best practices and best in class vendors
- **Plan design** – Currently most schools provide benefit plans that are richer than benchmark and the State health plan. Common plan designs would provide equity across public schools, improve consumer engagement and reduce net costs.
- **Employee contributions** - On average, public school employees contribute less for healthcare than benchmark and the State plan. By requiring public schools to elect the State plan, savings can be achieved through increased employee contributions.

## Analysis of Health Insurance Benefits for Public Employees

### Sources of Potential Savings (continued)

- **Provider networks** - Currently public schools use a variety of vendors, some of which do not have best in class discounts. By extending the use of a best-in-class vendor(s), savings can be realized through improved discount arrangements and increased use of in-network providers.
- **Prescription drugs** - Currently, the State and public universities utilize aggregate purchasing power through the Indiana Aggregate Prescription Purchasing Program (IAPPP). Savings can be achieved through the IAPPP's preferred pricing relative to the current public school pharmacy arrangements by extending the IAPPP to all public schools.

## Analysis of Health Insurance Benefits for Public Employees

### Sources of Potential Savings (continued)

- **Funding arrangements** - By pooling public schools under the State plan, savings can be achieved by self insuring stop loss risk, thus eliminating profit, risk margins and overhead which vendors build into the rates. For public schools that are already self insured, more competitive stop loss rates will be available if this coverage is purchased through the State. Alternatively, if public schools are required to participate in the State plan, the need for stop loss coverage will be eliminated.
- **Producer compensation** - Typically, there are fees associated with brokers and/or consultants who manage procurement of healthcare vendors and provide plan management services. By consolidating the public school employees, producer compensation costs could be greatly reduced or eliminated with improved value.

## Analysis of Health Insurance Benefits for Public Employees

### Sources of Potential Savings (continued)

- **Premium taxes** - Pooling public schools under the State plan would eliminate the premium taxes built into fully insured rates. While this would be a cost savings to public schools, the State would experience a revenue decline. For this reason, we are not estimating any savings from this revenue shift.
- **Consumerism** - The State has realized favorable experience due to the introduction of Consumer-Driven Health Plans (CDHPs) as evidenced through a recently completed (May 2010) comprehensive analysis. Currently these plans are generally not offered to Indiana public school employees. Based upon the State's experience, CDHP enrollment could be projected to reduce the long-term costs by approximately 10.7% in addition to the other savings mentioned in this report.

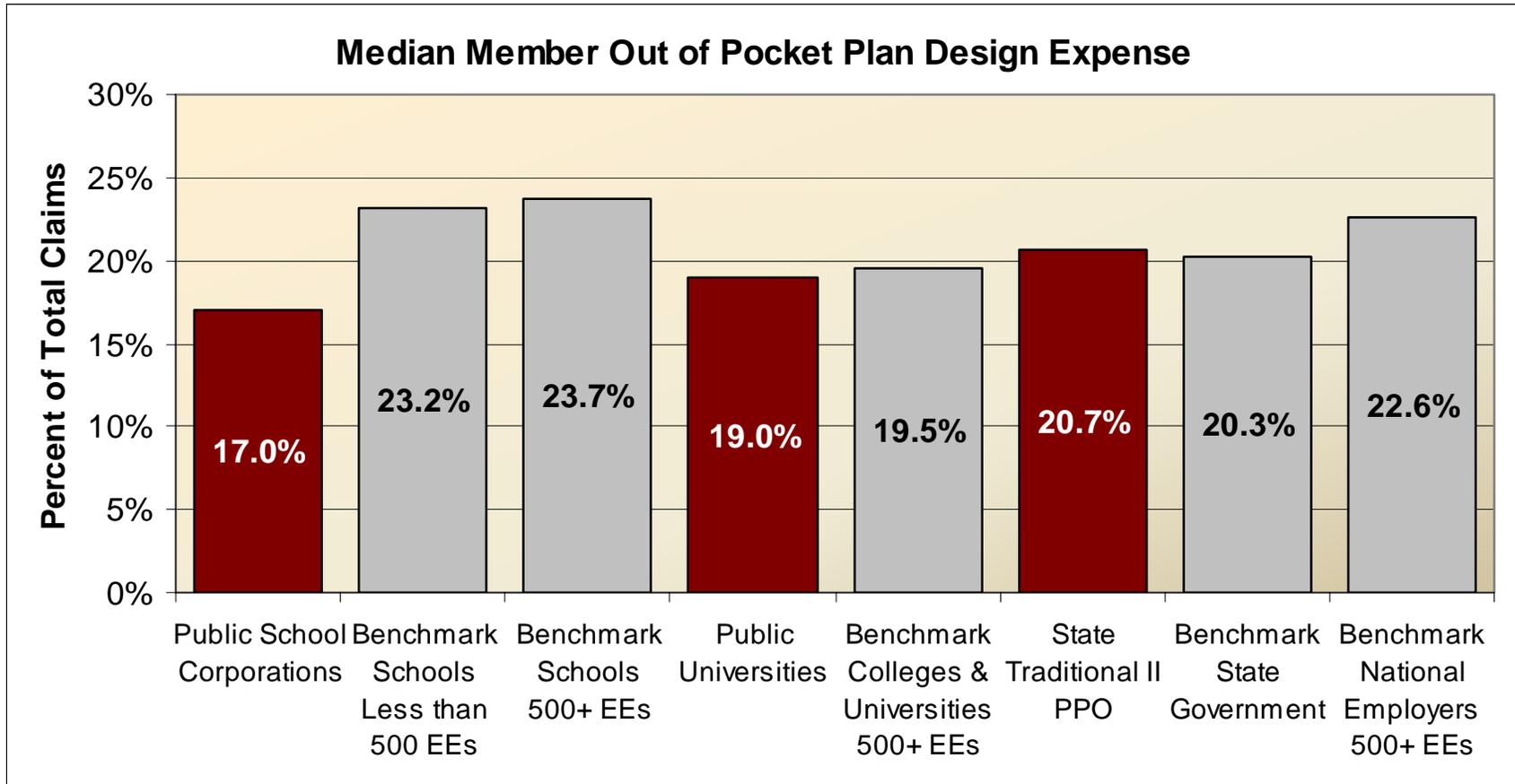
## Analysis of Health Insurance Benefits for Public Employees

### Sources of Potential Savings (continued)

- **Avoidance of costs (fines etc.) Non-compliance with federal laws** -Today many plan sponsors unknowingly violate Federal Statutes regarding issues such as 5500 filings, proper development of COBRA rates, discrimination testing rules etc. Department of Labor audits are random but can result in substantial fines. Smaller plan sponsors are most often at risk due to lack of expertise and compliance resources. Recently passed Federal Laws such as The Mental Health Parity Act as well as The Patient Protection Affordable Care Act (PPACA) will make future compliance requirements even greater. Consolidation of risk pools and more global management of benefit programs provide economies of scale and also can assure a more rigorous review. The bottom line is better compliance, fewer fines and a lower cost of assuring compliance vs. the current.

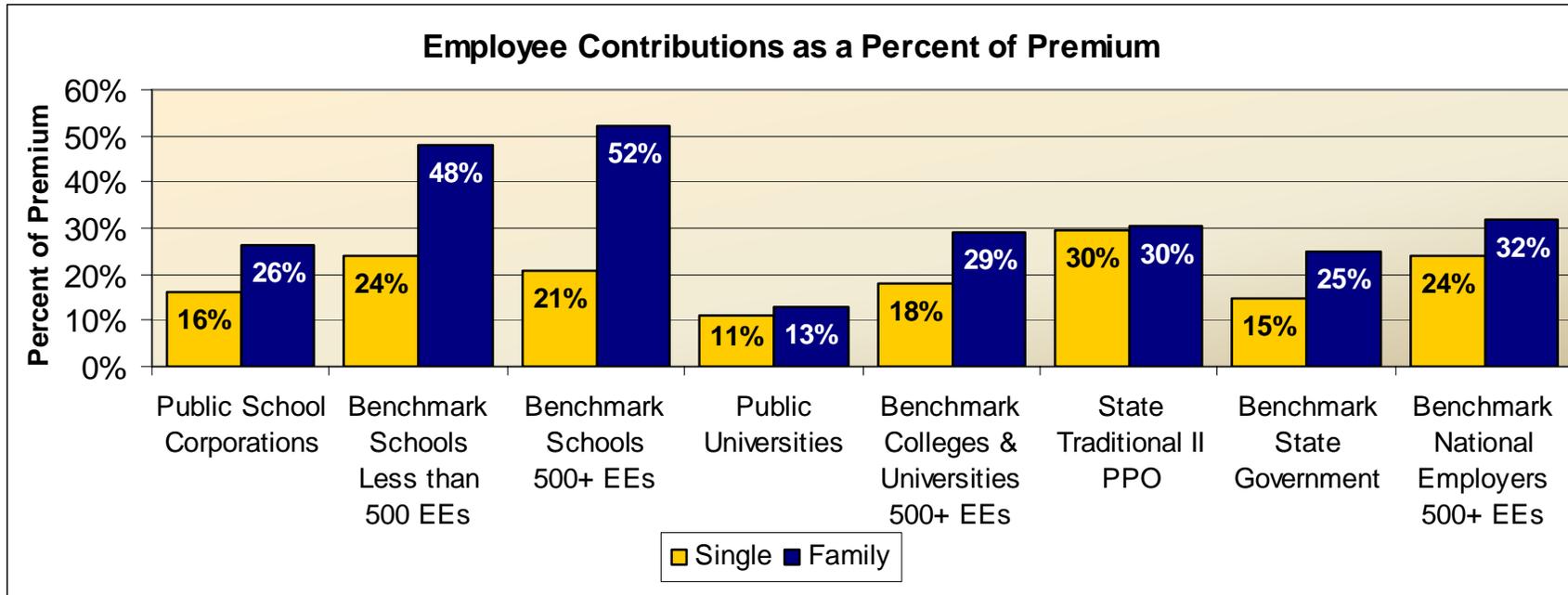
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## Benchmarking Results – Plan Design



# Analysis of Health Insurance Benefits for Public Employees

## Benchmarking Results – Employee Contributions



# Analysis of Health Insurance Benefits for Public Employees

## Projected Savings

- An annual savings of \$454 million is projected if public schools were to collectively procure healthcare benefits by utilizing the State’s program
  - This does not include savings that would be expected as a result of improved consumerism as evidenced by the State’s successful consumerism plans. This savings could be as much as 10%-11% of total expenditures.
- This projection does not include savings from employees opting for coverage under a spouse’s employer plan
- This projection does not include savings from reduced premium taxes, improved legal compliance of plans, or from leveraging other lines of coverage i.e., life insurance, disability

Source of Savings	\$ Millions
▪ <b>Networks</b>	\$81
▪ <b>Drug purchasing</b>	\$13
▪ <b>Administration/overhead</b>	\$31
▪ <b>Stop Loss premium</b>	\$13
▪ <b>Producer compensation</b>	\$9
▪ <b>Dental/vision</b>	\$3
▪ <b>Plan efficiency savings-subtotal</b>	<b>\$150</b>
▪ <b>Plan design/contribution</b>	\$304
▪ <b>Total plan sponsor savings</b>	<b>\$454</b>
▪ <b>Employee Savings</b>	<b>\$31</b>

# Analysis of Health Insurance Benefits for Public Employees

## Case Study

- In 2010, five school corporations have voluntarily chosen to join the State plan
- In total, the five schools are projected to save approximately \$3,600 per enrolled employee in 2010
  - For the 598 enrolled employees across the five school corporations this equates to 2010 savings of \$3.5 million or 41% compared to the 2010 forecast prior to joining the State plan
- In addition to the five schools that have elected voluntarily to join the State plan, additional schools are considering joining
- If all public school participants joined the State health plan, it would add 125,000 new enrollees, which utilizing the \$3,600 annual savings noted above, results in a \$450 million savings

# Analysis of Health Insurance Benefits for Public Employees

## Sources of Potential Savings

- **Platform for Savings in Other Benefit Areas** – While not part of the current study, Mercer typically finds that other lines of coverage and services can be advantaged by increasing the size of the risk pool and/or consolidated purchasing
- Examples of additional opportunities for savings include the following:
  - Life insurance and AD&D
  - Disability
  - COBRA
  - Flexible Spending Accounts (FSA)
  - Benefit administration
  - Payroll
  - Health management programs
  - 401k
  - Pension
- Increased opt outs as a result of those electing alternate coverage i.e., coverage through spouse plan represent another source of savings that are not quantified in this analysis



# Analysis of Health Insurance Benefits for Public Employees

## Question and Answer

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